

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-132-W

IN RE:

Application of May River Water)
Company, Inc. for adjustment of)
rates and charges for the provision)
of water service.)
_____)

REBUTTAL TESTIMONY OF
JACQUELYN WATSON

Q. ARE THE SAME JACQUELYN WATSON THAT HAS PREFILED DIRECT TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING, MS. WATSON?

A. The purpose of my rebuttal testimony is to sponsor the application filed by May River Water Company, Inc. ("May River") for an adjustment of certain rates and charges for the provision of water services and to respond to portions of the pre-filed direct testimony of South Carolina Office of Regulatory Staff ("ORS") witness Henry N. Webster, II.

Q. HAVE YOU REVIEWED THE ADJUSTMENTS PROPOSED BY ORS IN MR. WEBSTER'S TESTIMONY AND ITS ATTACHED AUDIT REPORT?

A. Yes, I have.

Q. DO YOU AGREE WITH THE PROPOSED ADJUSTMENTS?

A. Yes. Although I have not spoken directly with ORS, I understand that May River has discussed the results of the audit with ORS and is adopting all of ORS's adjustments.

1 **Q. EVEN THOUGH MAY RIVER AGREES WITH ORS'S ADJUSTMENTS, DO**
2 **YOU HAVE ANY REQUESTS OF THE COMMISSION?**

3 A. Yes. As the Commission may recall from the 2007 rate case filed by May River's
4 predecessor, South Atlantic Utilities, Inc., Water Utility Management's expenses to
5 operate the May River system were previously determined through an allocation of costs.
6 Because of the significant differences between water utility regulation in Georgia and
7 South Carolina, ORS encountered difficulties in performing their audit in 2007. It was
8 recommended that May River remit a monthly management fee to WUM for the services
9 provided, which it has done since 2009. In this proceeding, however, ORS's audit,
10 reviewed WUM's allocated costs incurred in providing the services and not the monthly
11 management fee. While May River is not opposed to using either method in determining
12 its costs, May River would respectfully request that the Commission provide guidance in
13 its final order as to how May River's expenses should be determined on a going forward
14 basis.

15
16 **Q. DO YOU HAVE ANY RESPONSE TO ORS'S TESTIMONY REGARDING A**
17 **RECOMMENDED OPERATING MARGIN?**

18 A. Yes. It is my understanding that ORS is recommending that the Commission set
19 rates which would result in an operating margin of 10-15% for the Company. As I stated
20 in my direct testimony, if May River's proposed expense items are adjusted by the
21 Commission, May River's expenses in operating the system would still warrant
22 significant rate relief. Even with efficient management and operational controls, May
23 River is unable to earn sufficient revenue to cover its expenses in operating the system.
24 However, I believe because of the small size of the system, and given ORS's
25 recommended adjustments, rates which yield an operating margin of 15% would be more
26 appropriate for this system.

27
28 **Q. DO YOU HAVE ANY COMMENTS ON MR. HIGHSMITH'S TESTIMONY**
29 **WITH RESPECT TO THE ACCOUNTING ADJUSTMENTS?**

30 A. Only to say that Mr. Highsmith has not considered the significant costs associated
31 with maintaining a public utility's books and records in accordance with Commission

1 regulations. While I am not an attorney, I understand that property owners' associations,
2 such as the May River Property Owners' Association, may apply to be exempt from
3 Commission regulation. As discussed more fully by May River witness Tom Smith,
4 simply because the Association may be able to operate the system less expensively
5 because it would not be subjected to these regulations does not mean that the expenses
6 incurred by May River to comply with these requirements are unreasonable or imprudent.
7 To the contrary, I believe that ORS's audit appropriately reflects that May River should
8 be permitted a significant rate increase based upon its allowable expenses.
9

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 **A.** Yes, it does.